

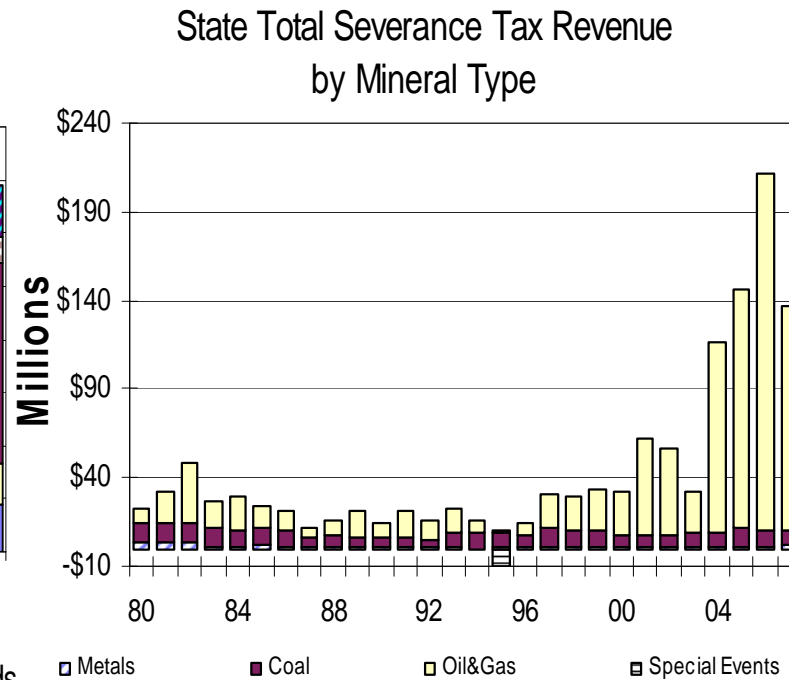
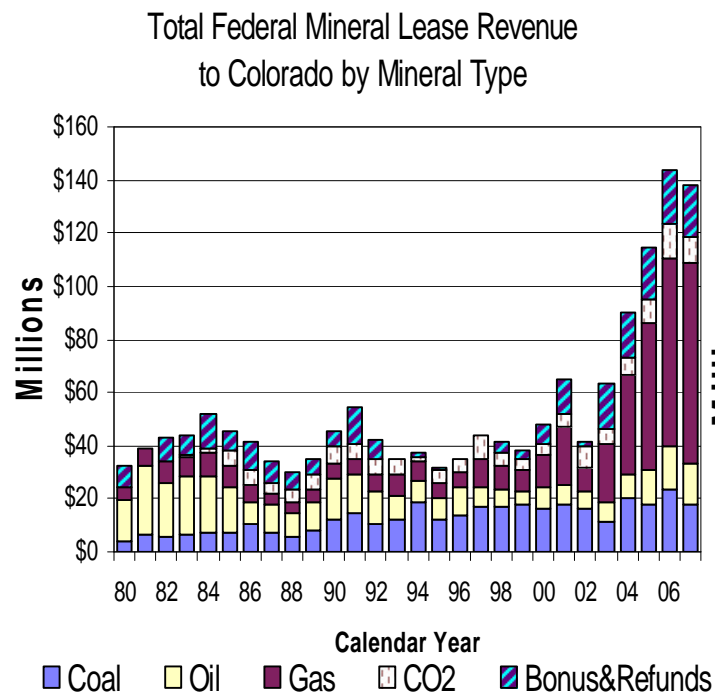
Colorado Severance Tax and Receipts from Federal Mineral Lease

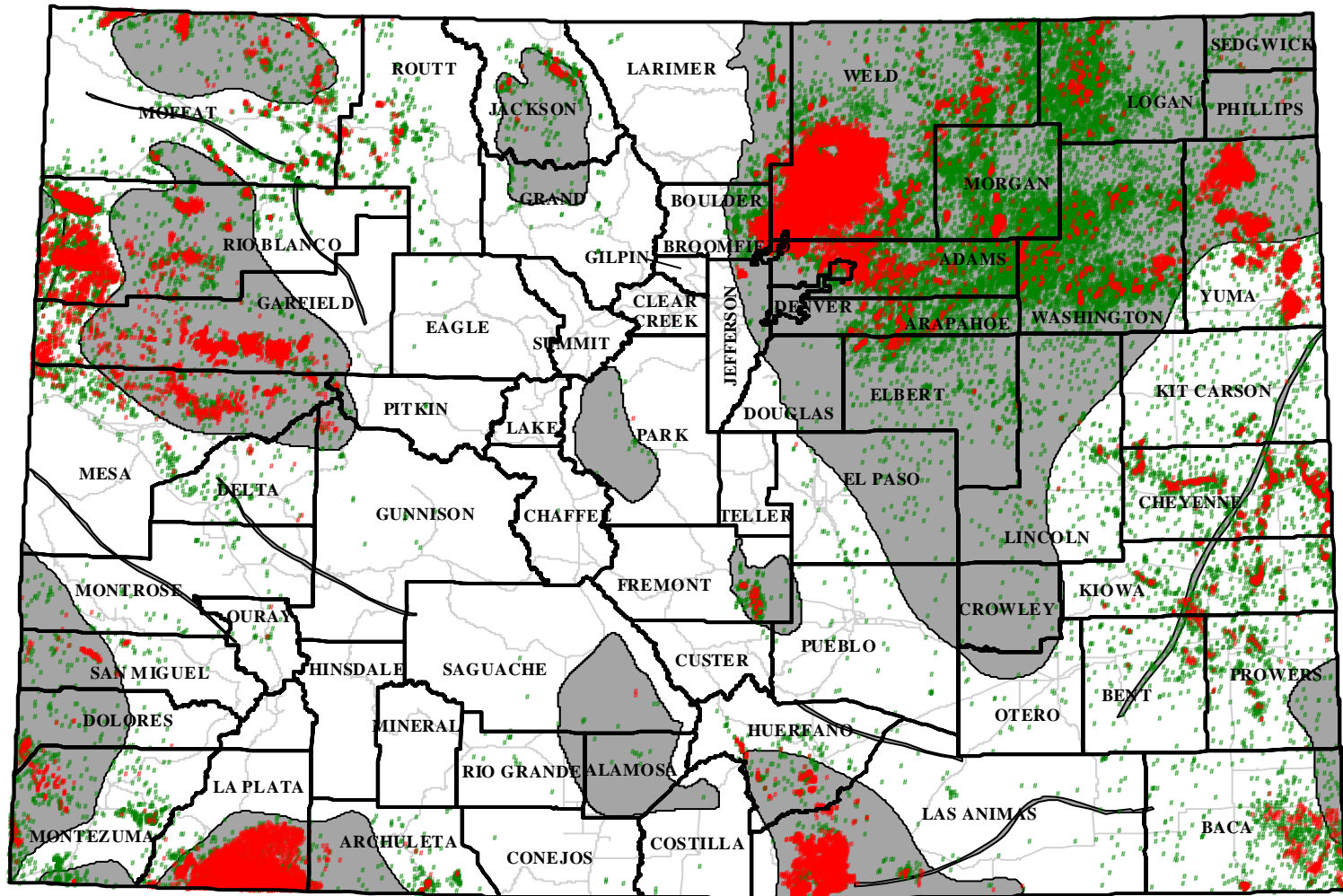
Stephen Colby

June 29, 2007

27-Jun-07

Severance and Federal Mineral Lease Revenues in Colorado are dominated by natural gas

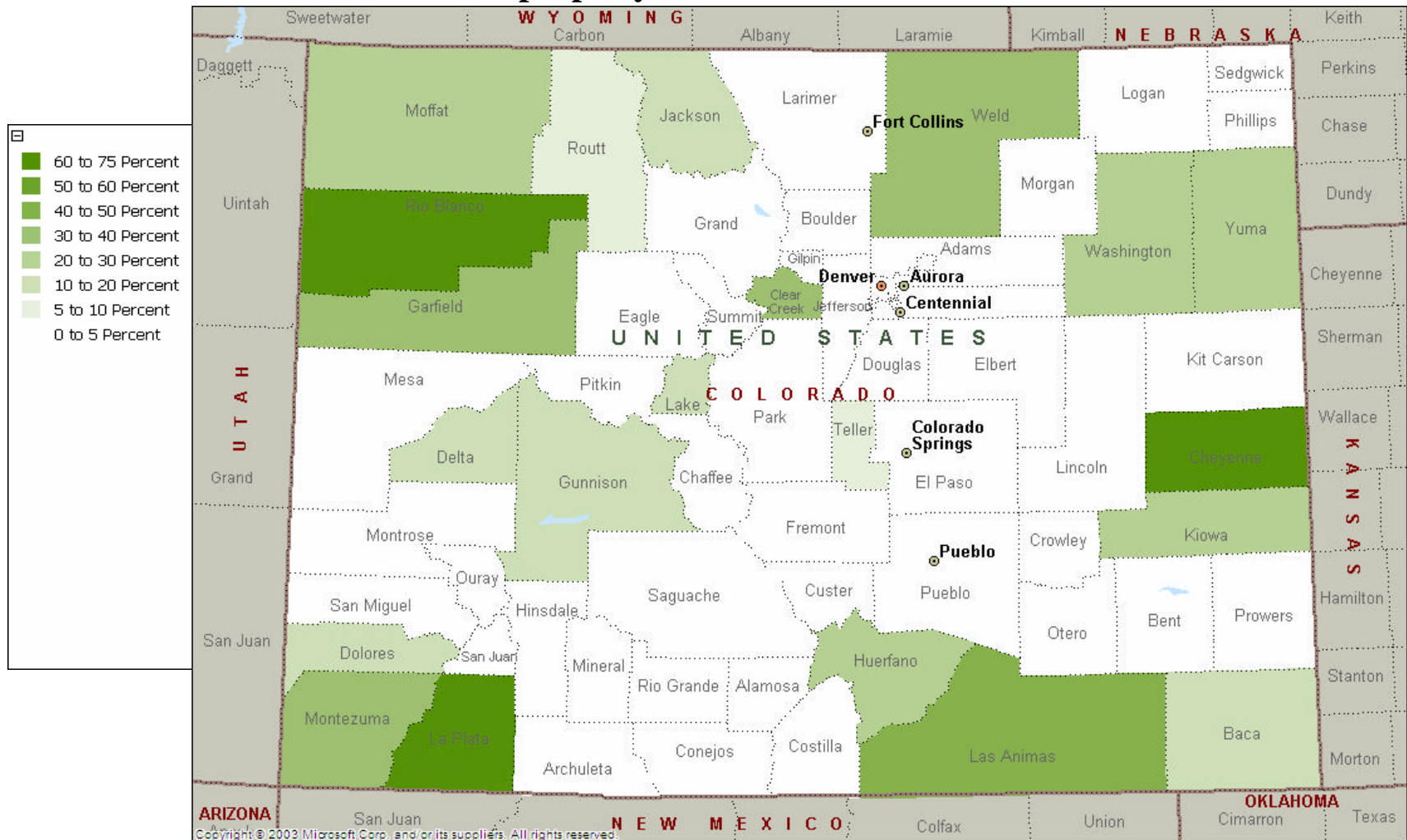




OIL & GAS WELLS OF COLORADO

SOURCE COGCC

One measure of where this production is occurring is the mineral based property tax revenue as a percent share of total property taxes in a counties.



Colby's Fearless Forecasts:

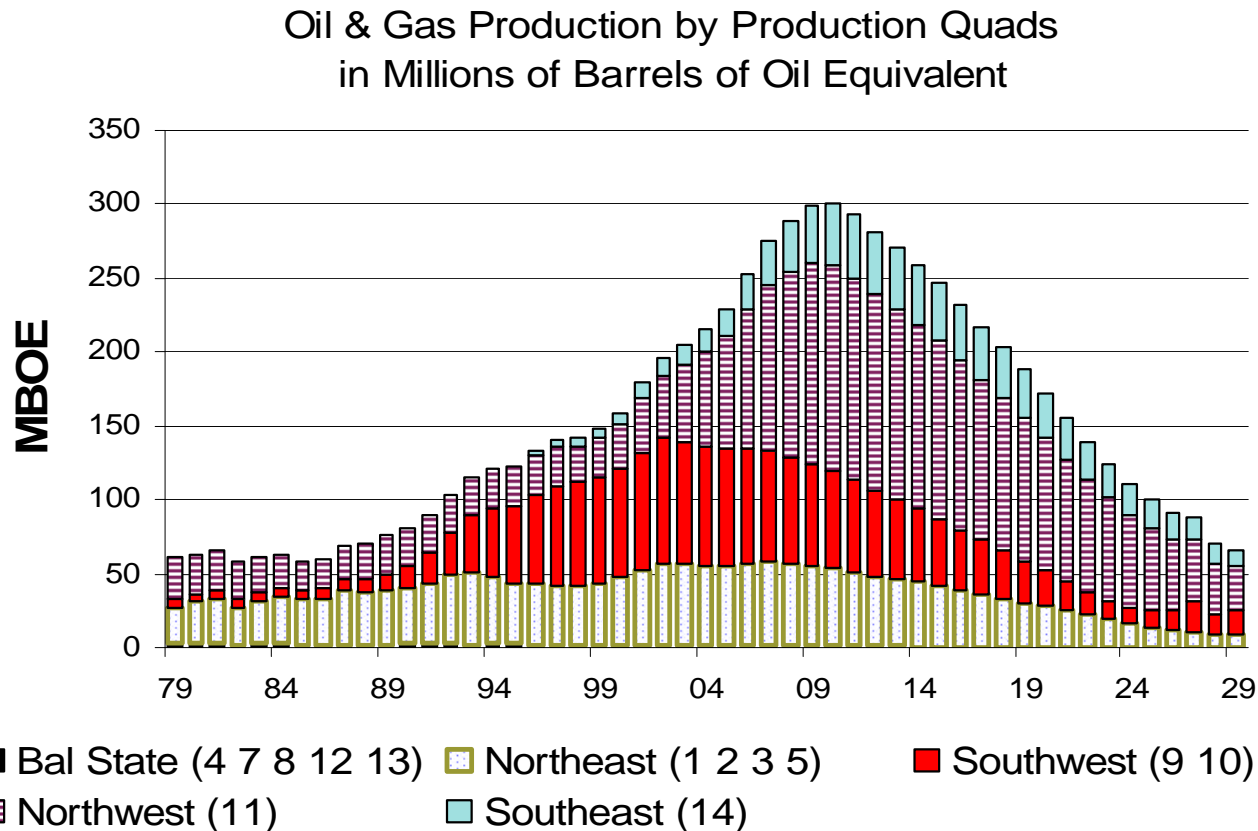
- All forecasts change**
- We need to put up versions of the long view
so we can discuss what is possible and what to do about it.**
- Here is a sketch of a possible future so that we can conduct**

**Shared
Structured
Educated
Guessing**

The big moving parts in these forecasts are:

- The price of natural gas,
- Interest rates on the large investments needed,
- The prospect for natural gas production from various geological formations
- Environmental and regulatory approvals for large scale drilling,
- Pipeline capacity to markets far away,
- Big competitors against Colorado natural gas:
 - 1) Alternative fuels coal and oil
 - 2) Imports of Liquefied Natural Gas (LNG)
 - 3) Canadian and Alaskan natural gas
 - 4) Conservation

**When we project all the current oil and gas production fields
we get a peak for Colorado production around 2012.
There are more Colorado production fields being explored.
Who knows what the future holds?**



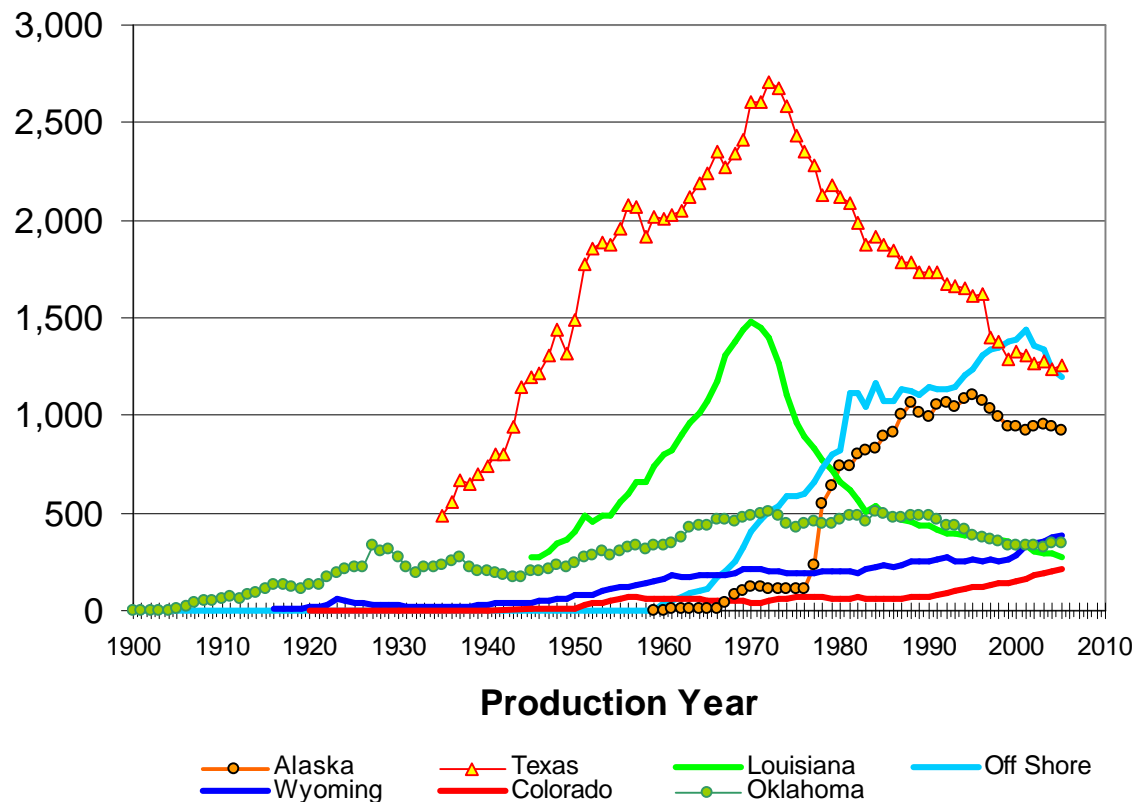
**Much of Colorado natural gas must go long distances
in pipelines to markets,
passing many other suppliers on the way.**

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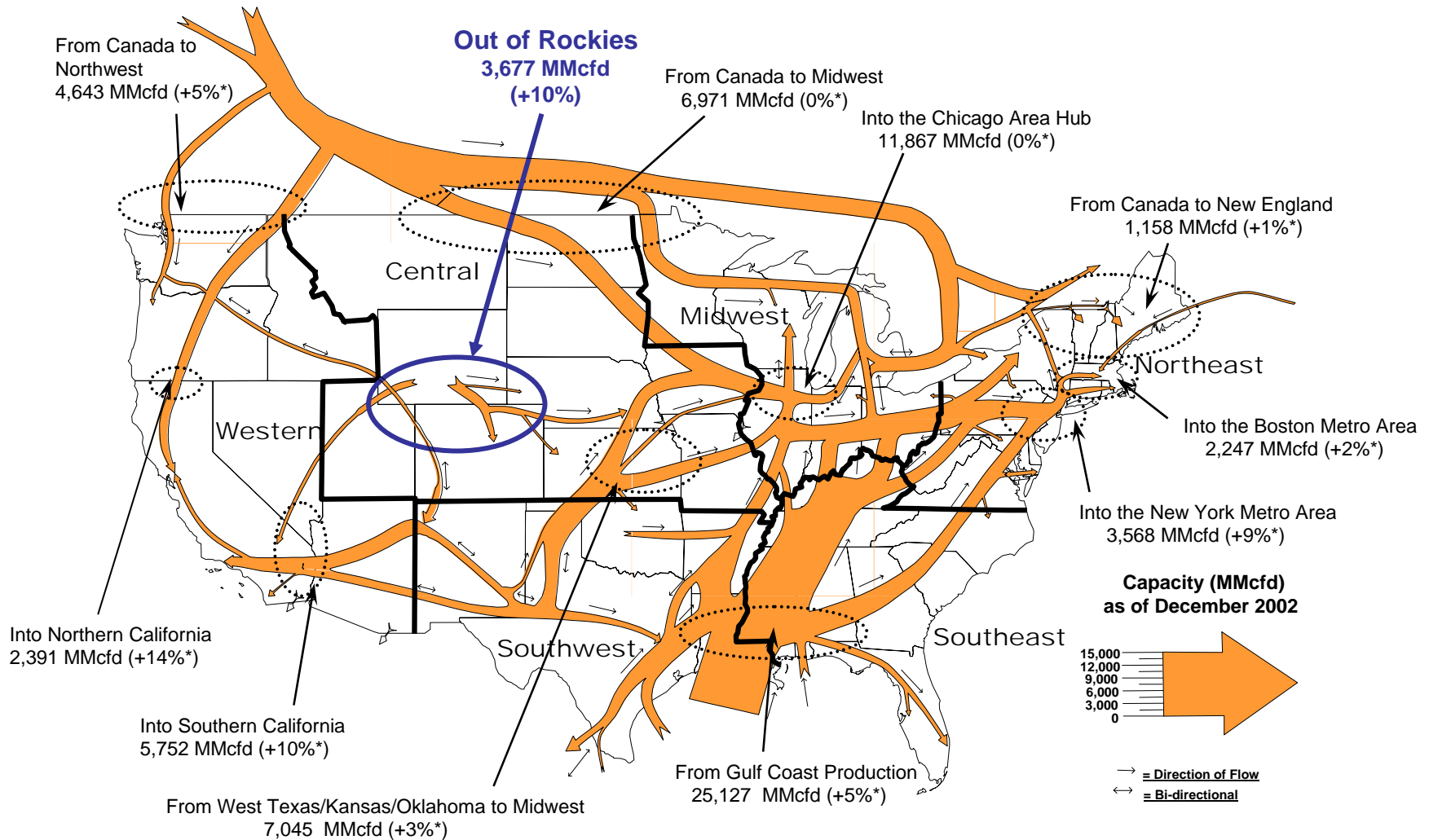
Slide 6

**Other states, with many oil and gas fields, have gone through similar mineral cycles showing a build up, peak, and decline pattern on a 50 to 100-year scale.
Colorado is 4% of national production.**

**State Oil and Gas Production
in Million Barrels of Oil Equivalent (MBOE)**



Natural Gas Transportation

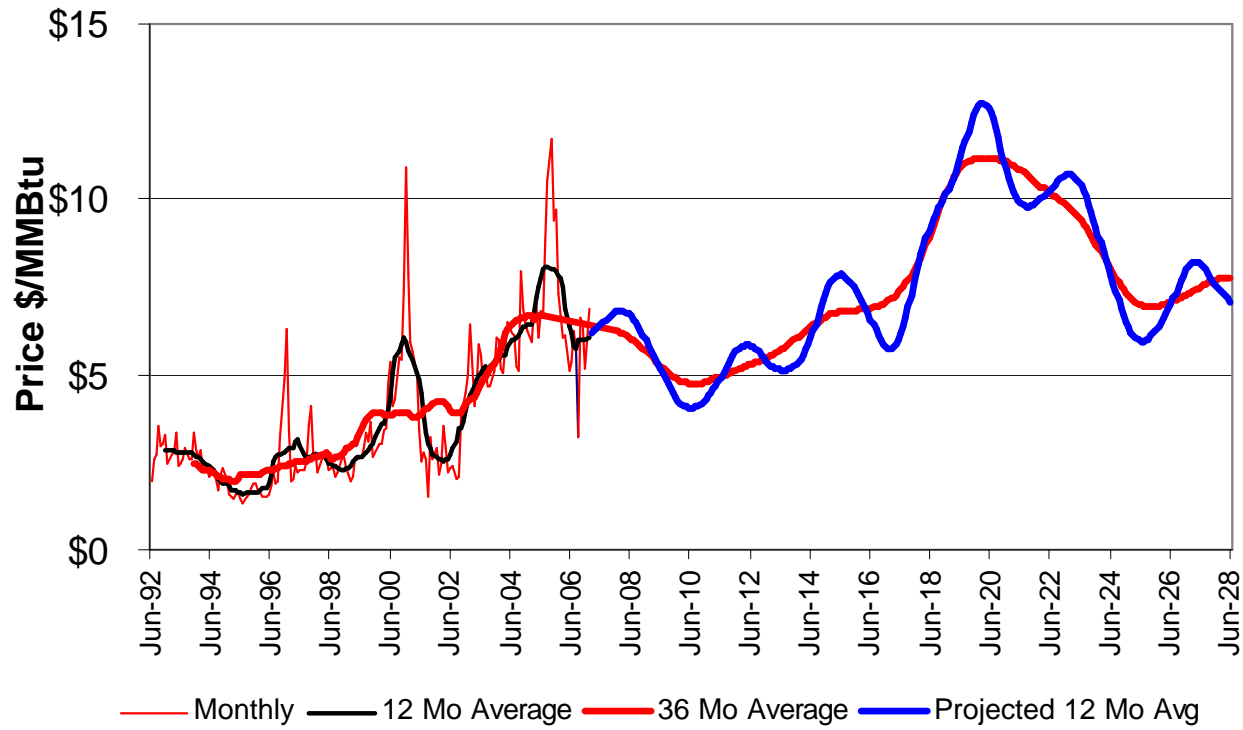


* Percent change since 2000.

Source: Modified from Energy Information Administration, GasTran Gas Transportation Information System, Natural Gas Pipeline State Border Capacity Database.

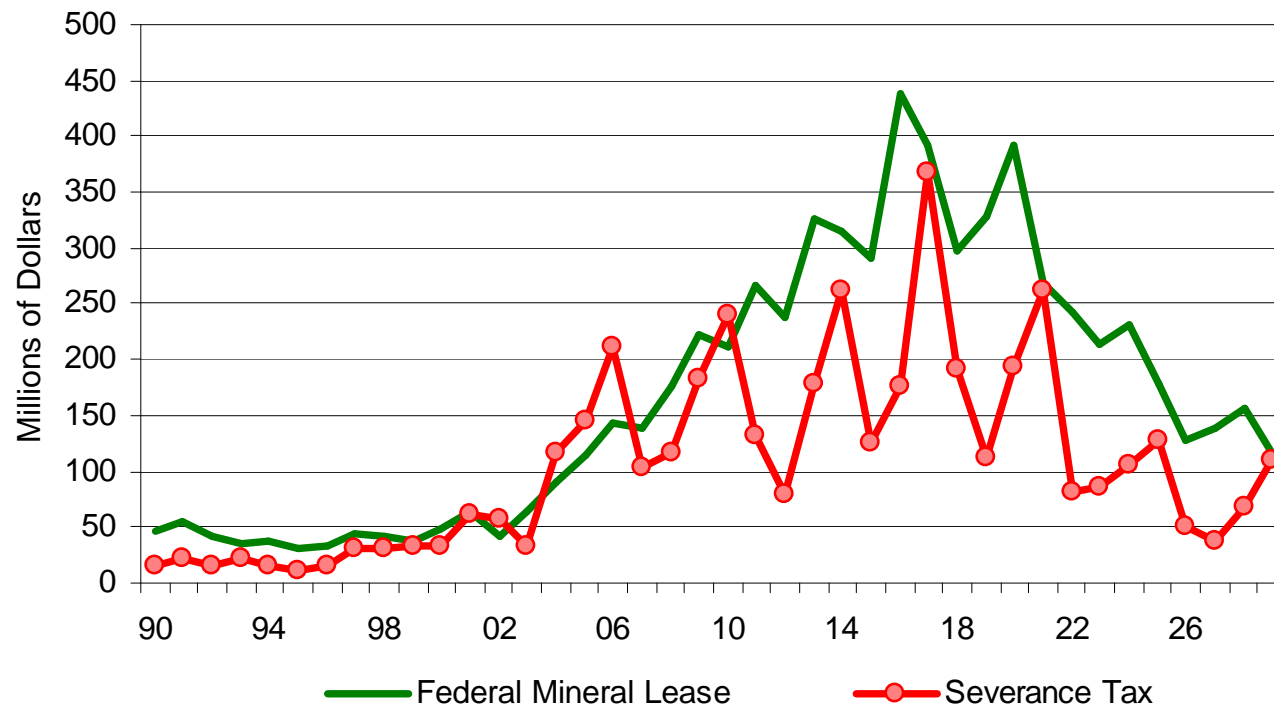
**With this many moving parts, the future of natural gas prices
is quite uncertain, but certainly variable.**

Colorado Wellhead Natural Gas Prices with Projections in Real Dollars

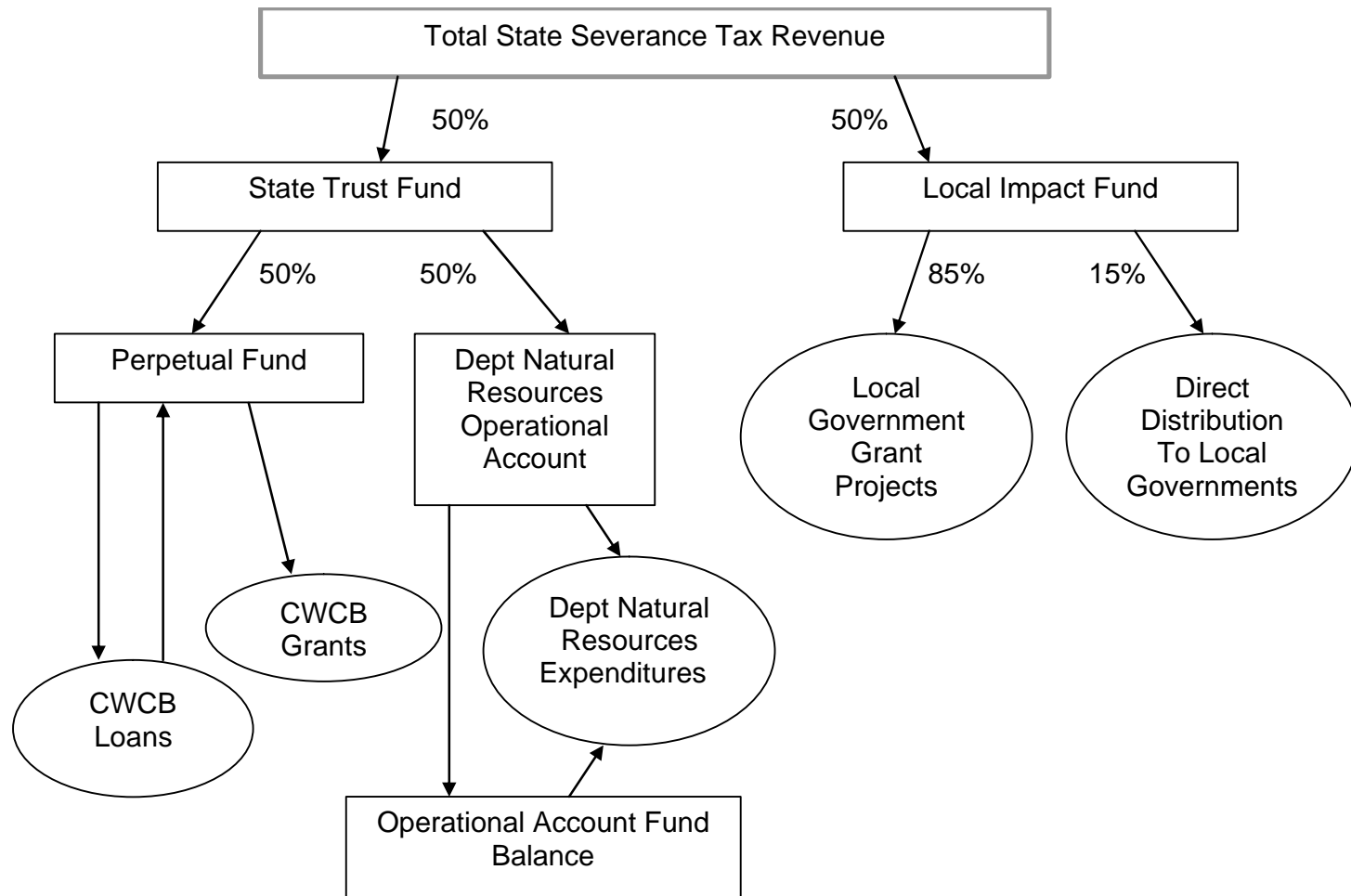


Either way, it will be a wild ride.
Under a moderate price scenario,
federal mineral lease and severance tax revenues double.
Under a higher price scenario they triple.

Public Revenue to Colorado from Mineral Production



Half of severance revenue has gone to local governments via the Energy and Mineral Impact program. The other half now goes to programs in the Department of Natural Resources



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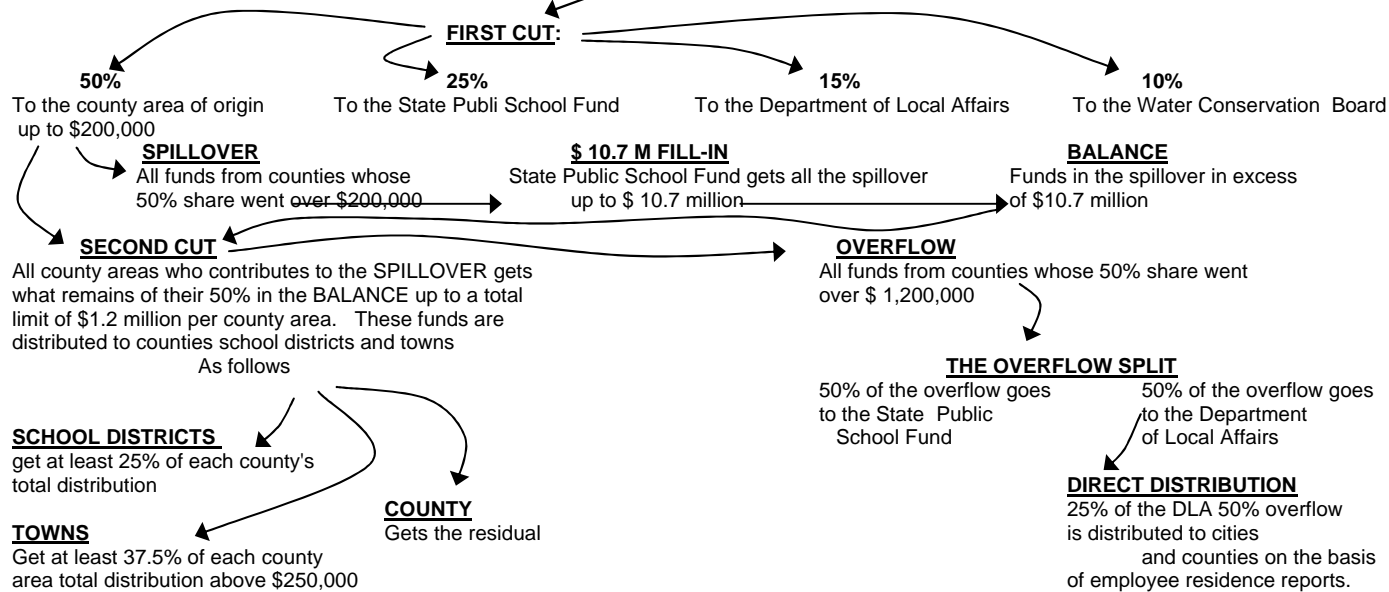
Federal mineral lease revenues to the state are distributed in a complex “hold harmless cascade” formula set in state statute.

FEDERAL MINERAL LEASING ACT

- Net of administrative charges, returns 50% of rentals and royalties from federal lands in the state of origin.
- Directs that such funds be used by the states for planning, maintenance of public facilities and services in areas of the state Socially and economically impacted by mineral development.

COLORADO MINERAL LEASING FUND

- Colorado statute (CRS 34-63-102) directs that in the distribution of these funds priority shall be given to school districts and political sub - divisions socially or economically impacted by the development or construction and processing of the federal minerals.
- Distributes the amounts originating in each county as reported by the Federal government under the following "cascade" type of formula:

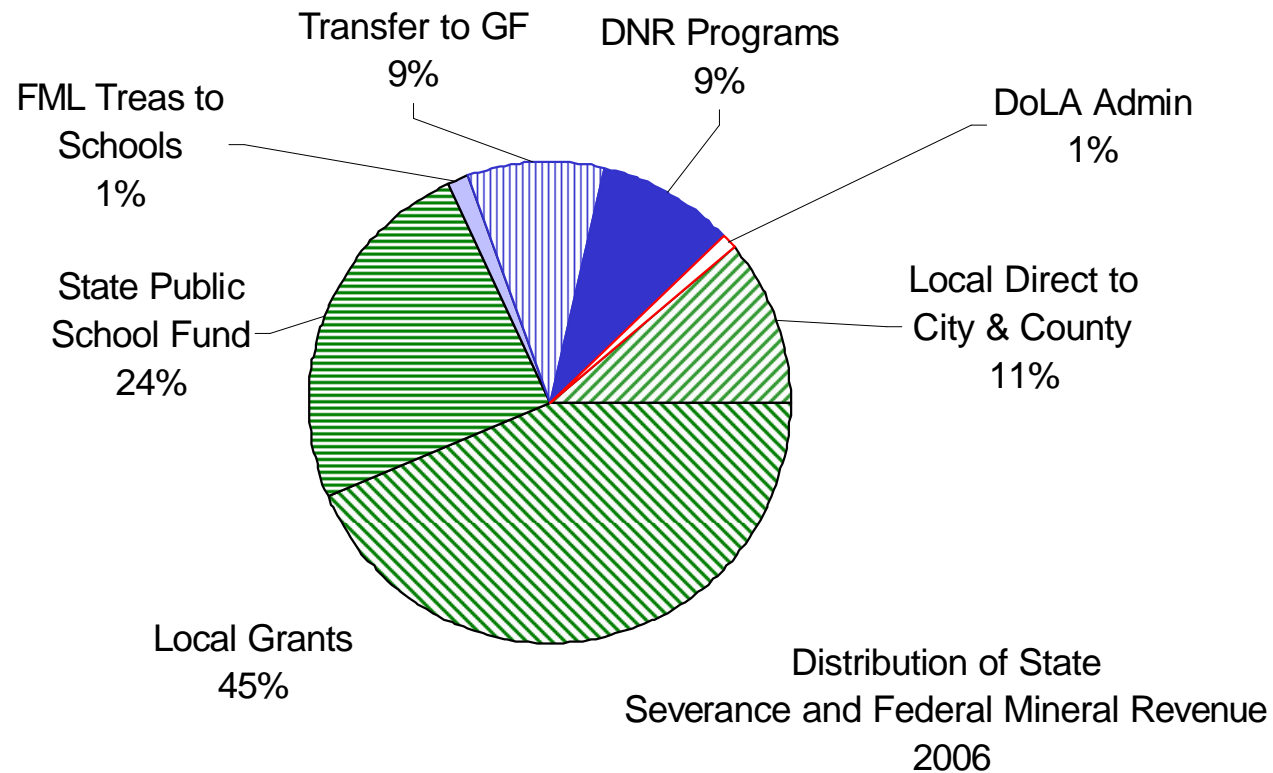


Calendar Year->	2002	2003	2004	2005	2006
Total Receipts \$M	\$41.8	\$62.8	\$89.9	\$114.8	\$144.1
Counties	\$4.0	\$5.2	\$5.6	\$6.2	\$6.2
School Districts	\$2.1	\$3.0	\$3.4	\$3.7	\$3.8
Towns	\$2.0	\$2.9	\$3.4	\$3.8	\$4.0
CWCB	\$4.2	\$6.3	\$9.0	\$11.5	\$14.4
State Public School Fund	\$22.2	\$31.2	\$44.1	\$55.9	\$70.4
DOLA Grants	\$7.1	\$13.0	\$21.7	\$29.6	\$39.4
DOLA Direct Distribution:	\$0.3	\$1.2	\$2.7	\$4.1	\$5.9

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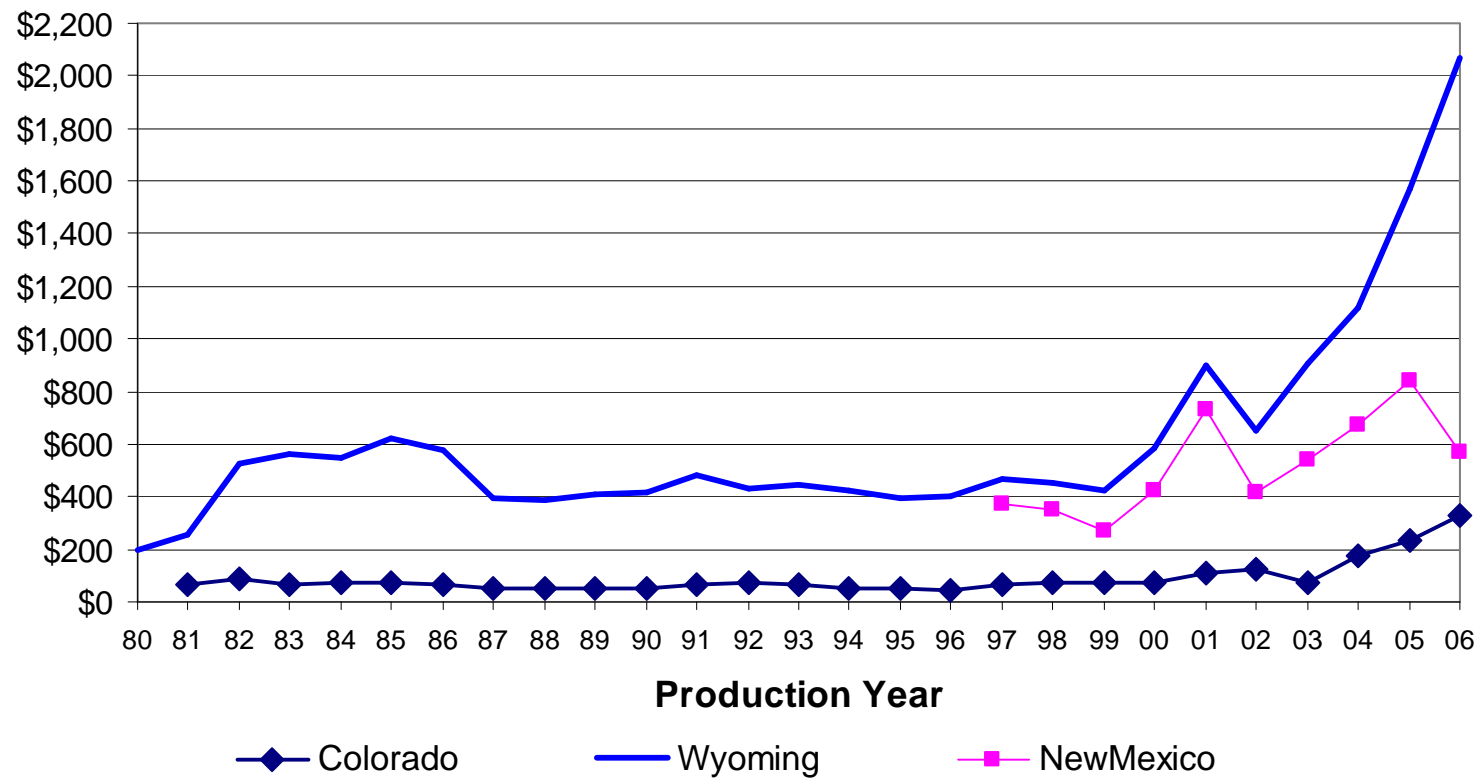
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**Local communities get over 85% of these revenues,
much of it through state redistribution programs.
In the end result, schools get around 37%**



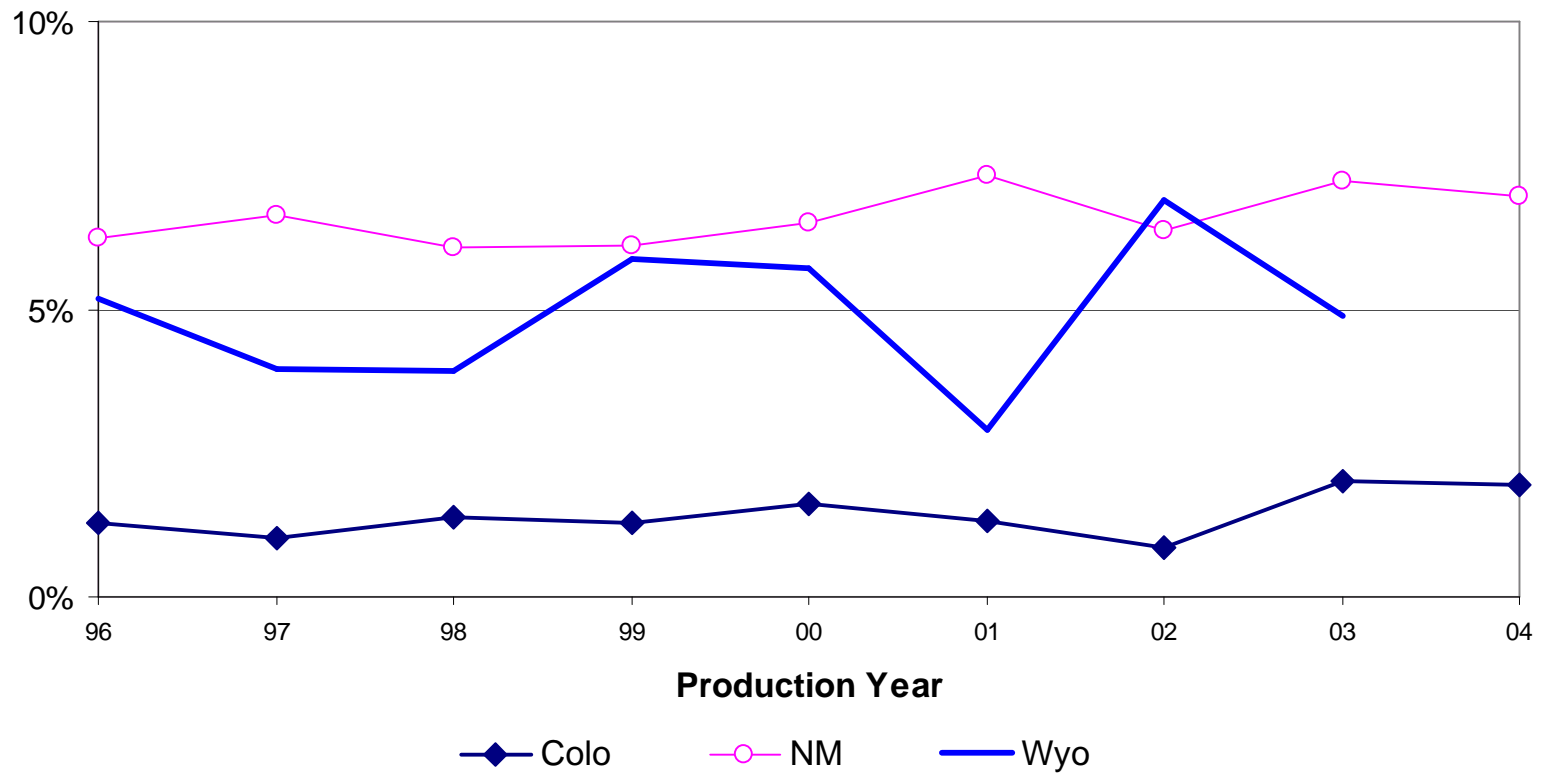
Other states' mineral revenues are substantial.

Severance and Federal Mineral Lease Revenue



Severance Tax is the most variable between states

State Severance Revenue from oil and gas divided by O&G
Production Value



Colorado Department of Local Affairs.

http://www.dola.colorado.gov/LGS/FA/EIAF/slide_show.html

Energy and Mineral Impact Assistance

Background Papers on Public Revenue from Mineral Production in Colorado

The list below gives links to detailed information on public revenue from mineral production in Colorado.

1) **Mineral Revenues to the Public Sector in Colorado** a series of 38 graphic slides describing the history of mineral production in Colorado, the public revenues generated, and the distribution of these revenues to state and local governments. A text and table version of this information is available at Mineral Tables

RELATED INFORMATION LINKS:

Colorado Oil and Gas Conservation Commission: <http://oil-gas.state.co.us/>

U.S.Dept. Energy - Energy Info Administration: <http://www.eia.doe.gov/>

U.S.Dept Interior Mineral Management Service: <http://www.mrm.mms.gov/Stats/statsrm.htm>

Colorado Division of Property Taxation Annual Report: <http://www.dola.state.co.us/PropertyTax/Publications/PublisIntro.htm>

Colorado Department of Revenue Annual Report: http://www.revenue.state.co.us/Stats_Dir/wrap.asp?incl=taxstats

Colorado State Treasurer Payments to Local Governments: http://www.treasurer.state.co.us/transfers/fed_funds.html

Colorado Division of Mines Reports: <http://www.mining.state.co.us/DMG%20Reports.htm>

Colorado Geological Survey Report: http://geosurvey.state.co.us/portals/0/MMF_2004_small.pdf

2) **Severance Tax Revenue Projections Methods** a paper describing the economic dynamics of the state severance tax and methods to project state severance tax revenues into the future.

3) **Federal Mineral Lease Distributions in Colorado** a paper describing the statutory distribution of these funds to Colorado state and local governments with a table of figures and flow chart.

4) **Payment in Lieu of Taxes (PILT) program descriptions** Three programs with tax exempt lands make payments to local governments to off set lost local tax revenue.

5) **Why is Severance Tax so variable?** A two page brief with charts to explain the structural reasons why severance tax revenue to the state is so variable.

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